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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20036

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In the matter Of)
)
Access Charge Reform for Incumbent) CC Docket No. 98-97
Local Exchange Carriers Subject to)
Rate-of-Return Regulation)

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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20036

COMMENTS OF ITCs, INC.
NOTICE OF PROPOSED RULE MAKING - ACCESS CHARGE REFORM
FOR INCUMBENT LOCAL EXCHANGE CARRIERS
SUBJECT TO RATE-OF-RETURN REGULATION

ITCs, Inc., an economic cost consultant to independent telephone companies serving America's rural areas, on behalf of Chariton Valley Telephone Company, Cunningham Telephone Company, ETEX Telephone Cooperative, Mogan Dial, Inc. - Kansas, Mogan Dial, Inc. - Missouri, Moultrie Independent Telephone Company, Inc., Plains Telephone Cooperative Association, Inc., Steelville Telephone Company, South Central Telecommunications of Kiowa, South Central Telephone Association - Kansas, South Central Telephone Association - Oklahoma, Tri Country Telephone Association, Inc., TCT West, Inc. and Wiggins Telephone Association, through counsel, respectfully respond to the Commission's invitation for comments in the Notice of Proposed Rule Making on the above captioned matter released June 4, 1998 and amended by Order released July 15, 1998.

Introduction

1. ITCs serves small rural Local Exchange Carriers (LECs) located in the mid-west and Rocky Mountain regions of the United States. In these regions the barriers of distance and density remain critical impediments to the provision of universal service. It is here that the balance of local

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rates, universal service support and access service revenues is extremely delicate and fragile for, if at any point, the scale is tipped without corresponding adjustments in one of the other elements, the results can be severe. These can include sudden and dramatic increases in local rates along with potential customer loss, support requirements that are not met for a prolonged period of time, or the loss of interexchange carrier choices due to unbearable levels of access charges. Accordingly, the "reform" processes proposed in this proceeding must proceed with the utmost in caution and care.

2. As a prelude to its comments, there are several issues ITCs desires to bring to the attention of the Commission.

3. First, the Commission has long recognized the inter-relationship between interconnection, universal service support and access charges. In fact, the Commission referred to these three elements of the 1996 Act's implementation as the "Trilogy" and often indicated that all of these elements, particularly the reform of access charges had to occur in a somewhat synchronous manner because of the inter-relationship between the elements. Given this, along with the fact that small rural companies are generally exempt from the requirements of interconnection and the fact that Universal Service Fund changes are not expected before January 1, 2001, ITCs questions the pressing need to reform access charges for rural companies before changes in either of the other two elements dictate a need to change the structure of access charge rates. To the contrary, ITCs is quite concerned that changes to the structure of access rates will impact the balance to the extent small rural companies and their customers will be harmed.

4. Second, as indicated in the Commission's Notice of Proposed Rulemaking in this matter, small rural telephone companies operate under much different conditions than those encountered by large urban based exchange carriers. Rural companies serve high cost areas, their customers have

small calling scopes, their products are limited and their customer base seldom achieves any form of critical mass. As indicated in the NPRM (at 37), the high cost factor alone will cause significant disruption in that the upward movement in Subscriber Line Charges will be almost immediate. Even with lower rural local rates, by the time the local rate, the additional SLC and intraLATA toll (required due to reduced calling scopes), are added together, many rural customers will be paying significantly more for service than their counterparts in large urban areas. As an example, in one case recently examined by ITCs, a customer in a small community with a calling scope of less than 500 will pay 21% more per month than customers served by a nearby RBOC with a calling scope of well over 1 million lines. Such a result is contrary to the urban/rural parity concept embodied by Congress in the 1996 Act.

5. Allied with the above, the requirement of the 1996 Act for reasonably comparable service and rates between rural and urban areas enters into these deliberations as a key implementation constraint. If reasonable comparability can be achieved with implementation of the principles established for price-cap exchange carriers, then the process may be acceptable; if reasonable comparability can not be achieved, then the principles of the act will be violated and the delicate balance between the three elements will be disrupted. This applies to all access elements but becomes most evident in the treatment of second residence and multiple business lines. Not only does the proposed structure severely prejudice rural customers by making information access more expensive, it will discourage business development and productivity too thereby negatively impacting rural economic and social well-being. Consequently, ITCs questions these proposed reforms in light of the plain language and intent of the Act.

6. Finally, it is becoming apparent that rural companies will face competition sooner rather than later. In terms of survival, rural companies have no choice but to increase their customer and product bases by competing in neighboring areas. This may cause a loss of exempt status and the onset of competition which will be limited to their largest customers. While some of the proposed changes will be conducive to an equitable competitive environment, inordinately large additives will put the rural Local Exchange Carrier at a significant competitive disadvantage. With price being a key element in the competitive environment, imposing requirements of the nature presented in the NPRM, without flexibility, will have a significantly negative impact.

7. Accordingly, given the above, ITCs first recommends that all forms of support be modified by requiring that all access be priced at actual cost, less a usage or calling scope based discount with the remainder falling within the scope of Universal Service Fund support. The rate structure should remain as at present with the same limitations as exist today. This will ameliorate the disparities discussed above and allow the delicate balance between local, access and support revenues to remain until other market, economic and institutional changes dictate a need for further reform.

8. Should the Commission decide to proceed as suggested in the NPRM and notwithstanding the above, the following thoughts are offered on specific requests for comments.

Non-Traffic Sensitive Costs

9. The Commission suggests that non traffic sensitive costs should be rated on a flat basis as opposed to per-minute charges. These costs include the common line, line side port components (including line cards, protector and main distribution frame), and trunk ports. In principle, ITCs supports these proposals in that they allow for a more competitively neutral form of pricing by

linking the nature of the cost with a like rate structure. This isolates deeply embedded support elements and eliminates opportunities for competitive advantages derived from uneconomically based rates. ITCs also supports differential pricing for specific services that require components of different costs. However, in all cases, rates must remain comparable with urban rates with all costs exceeding that level assigned to the Universal Service Fund for recovery.

Shared Facilities

10. ITCs supports the optional implementation of a call set-up charge in that it drives costs to more specific functions and more accurately bills specific users for the costs incurred. It also recognizes differences in call completion ratios and eliminates the opportunity to exploit these differences in a competitive environment.

11. For the reasons stated in the NPRM, ITCs supports the “optional” aspect of this proposal. There is no point in adding elements that are not cost effective or necessary.

Transport Services

12. In previous comments, ITCs has proposed a simplified approach to all network components, i.e., local loop, switching and transport. This approach requires the determination of actual, unsupported costs. It then requires the determination of a cost or rate discounted for the lower usage or reduced calling scopes experienced in rural areas. The differences between the two are recovered through high cost mechanisms. As LEC usage increases through increased calling scopes, etc., the dependency on high cost support is diminished. ITCs continues to support this approach, in this case, as it applies to the transport element of access.

13. As it relates to the proposals reflected in the NPRM, while ITCs questions the need for the constant increases in complexity, the proposals appear reasoned and can be implemented without extensive administrative burden.

General Support Facilities Costs

14. ITCs does not support the proposed changes to the allocation of General Support Facilities costs. While the proposals may have merit in their application to large price-cap LECs who provide their own billing and collection services, the majority of small rural LECs contract for their billing requirements with service bureaus. Accordingly, the use of General Support Facilities for the billing function is minimal or non-existent. Further, to use the expenses associated with this function, particularly as they relate to the services of a vendor would be totally inappropriate.

Marketing Expense

15. ITCs can not support the proposed changes to the process of allocating marketing expense. First, as indicated above, the high costs of rural LECs will severely impact SLC ceilings; to add an additional component to that process will only serve to exacerbate the problem. Second, as indicated earlier, ITCs does not support the separate treatment for non-primary residence and multi line business lines. By singling these lines out as the target for additional expense assignment simply adds to the bias against subscribers to these services. Third, in accordance with *Smith vs. Illinois*, usage remains the allocation vehicle, not cost causation, Further, establishing a unique line of reasoning to achieve a particular isolated desired result through a change in a basic allocation principle appears to be a manipulation of the process. One must ask where the dissection of accounts and the determination of separate treatment might end.

New Services Requirement

16. ITCs supports the proposed streamlining of these requirements. As the industry moves toward fulfilling the mandates of competition, there is little room for added administrative burdens; accordingly we commend and support the Commission's approach.

Summary


17. Given that interconnection requirements and Universal Service Fund changes are not yet applicable to small rural telephone companies, ITCs does not support the immediate implementation of access reform. Further, to implement the common line portion of the proposed reforms will result in immediate increases in certain SLC charges such that the requirements for comparability in rates, prescribed in the 1996 ACT, will not be met.

18. ITCs also continues to offer the concept of determining rates that are discounted from actual cost by either calling scope or usage with the balance being subject to recovery from universal service support.

19. Finally, should the Commission choose to proceed as proposed, ITCs supports the proposed treatment of NTS and transport costs as well as new service requirements, but does not support the proposals related to General Support Facilities and Marketing expense.

Respectfully submitted,

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August 17, 1998

CERTIFICATE OF SERVICE

I, Tracy Lynn Trynock, hereby certify that on this 17th day of August, 1998, copies of the foregoing "Comments of ITCs, Inc. Notice of Proposed Rulemaking - Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-Of-Return Regulation" have been served by first-class United States mail, postage pre-paid or by hand delivery upon the following:

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